Latam Economic Update

- **Argentina: Retail sales collapse in April, further snags in debt talks**
- **Brazil: Consumers' "little engine that could" revs up again**
- **Colombia: June's Citi survey shows analysts expect disinflation; monetary policy rate easing cycle expected to stop at 2.25%**
- **Mexico: Higher than expected inflation in June H1; IMF slashes Mexico's growth outlook for 2020**
- **Peru: Private clinics at risk of being taken over by the government; bank loans soar on government-sponsored programs**

ARGENTINA: RETAIL SALES COLLAPSE IN APRIL, FURTHER SNAGS IN DEBT TALKS

Supermarket sales slowed in April following some stockpiling at the beginning of the lockdown in March, while other retail sales collapsed, as expected, under Argentina's relatively strict COVID-19 control measures (chart 1). In data released on Wednesday, June 24, supermarket sales growth slowed from 9.6% y/y in March (revised down from 10.7% y/y) to only 0.2% y/y in April. Shopping centre sales, in contrast, continued their slide following the imposition of national quarantine measures, including nearly universal home isolation in Buenos Aires, from March 20. Shopping centre sales fell -56.6% y/y in March and plunged further in April by -98.6% y/y, reflecting their nearly total closure throughout the entire month. May is likely to see similarly feeble numbers as limited re-openings began in the latter half of the month only in rural and isolated regions. Broad quarantine measures were loosed in early-June outside of the capital, with only marginal easing in Buenos Aires, but are set to be re-tightened as new cases have surged in recent days.

Economy Minister Martin Guzman and bondholders traded barbs over the last few days reflecting their impasse on the terms of possible collective action and *pari passu* clauses in bond contracts that would result from an eventual debt exchange to cure Argentina's default on about USD 65 bn of sovereign debt. Bondholders are pressing for terms similar to those of the 2005 "exchange bonds" that require consent from 85% of bondholders for any future restructuring. In contrast, the Argentine authorities are arguing for participation thresholds similar to those in the 2016 "Macri bonds" that require only 66% or 75% of bondholders to consent in order to trigger a future exchange. This is an issue on which Min. Guzman has written extensively and is a point on which he is unlikely to make concessions. It's notable that since 2014, the G20, the IMF's executive bodies, and a wide range of private-sector actors have endorsed terms similar to those sought by Min. Guzman and which reflect model contractual language compiled by the International Capital Market Association (ICMA) to make sovereign debt restructuring more tractable in the absence of an international bankruptcy process.

—Brett House

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

Guillermo Arbe
51.1.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Mario Correa
52.55.5123.2683 (Mexico)
Scotiabank Mexico
mcorrea@scotiacb.com.mx

Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@co.scotiabank.com

Jorge Selaive
56.2.2939.1092 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

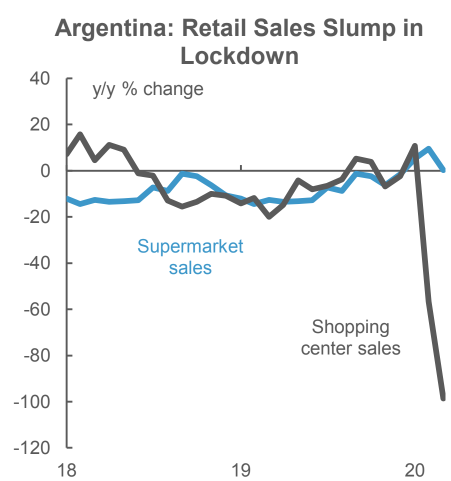
TODAY'S CONTRIBUTORS:

Jackeline Piraján
57.1.745.6300 (Colombia)
Scotiabank Colombia
jackeline.pirajan@co.scotiabank.com

Alejandro Stewens
52.55.5123.2686 (Mexico)
Scotiabank Mexico
astewens@scotiabank.com.mx

Eduardo Suárez
52.55.9179.5174 (Mexico)
Scotiabank Mexico
eduardo.suarez@scotiabank.com

Chart 1



Sources: Scotiabank Economics, Bloomberg.

BRAZIL: CONSUMERS' "LITTLE ENGINE THAT COULD" REVS UP AGAIN

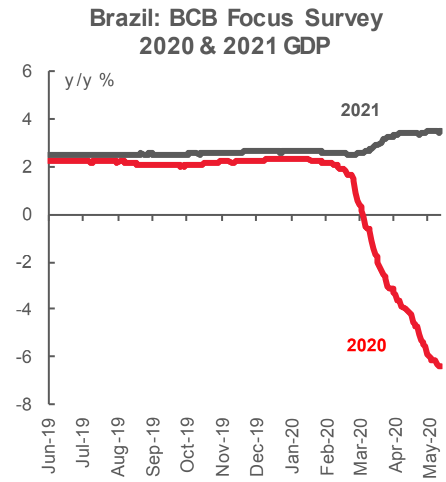
The IMF released on Wednesday, June 24, updates to its *World Economic Outlook (WEO)*, in which it now calls for a -9.1% y/y contraction in 2020 and a 3.6% y/y rebound in 2021. These numbers contrast with the consensus in Monday's weekly BCB *Focus Survey*, where market participants expect, on average, a -6.44% y/y contraction in GDP in 2020 and a 3.49% y/y rebound in 2021 (chart 2). Our forecast currently calls for -4.3% y/y in 2020 and 2.0% y/y in 2021, but we're likely to present an update of our broader set of forecasts after the PMIs for June are published July 1 and 3.

In other data on Wednesday, we were most looking forward to the external account data for May, but found the June FGV consumer confidence numbers more interesting. The June FGV consumer confidence index jumped to 71.1 from a 62.1 print in May (September 2005 = 100, chart 3), well above the consensus call for 64.2. The strength of the bounce—a nine point jump or 14%—is the strongest monthly increase since the indicator was created in 2005. This monthly recovery is likely due to two factors:

1. **The economy's bottom has passed.** As we have noted previously, mobility data imply that the worst point of the lockdown in Brazil took place late-April through early-May. Similarly, PMIs suggest that the economy likely bottomed in April, even if the gains since have been very soft. The gradual reopening could be part of the explanation of the increase in confidence; and
2. **Interest rates are at record lows.** As we've been stressing recently, Brazilian consumers are highly indebted and roughly one-fifth of their debt rolls over each year. Accordingly, relatively large relief is provided in periods when interest rates are falling, as they are now.

With regard to the external accounts data, the jump in FDI, from USD 234 mn in April to USD 2.5 bn in May, was larger than we or consensus expected (we both looked for a print around USD 1.5 bn), but there is not too much to infer from these numbers as the series tends to be very volatile. On the current account front, the surplus came in fairly close to expectations at USD 1.3 bn versus a consensus figure of USD 1.9 bn.

Chart 2



Sources: Scotiabank Economics, BCB.

Chart 3

Sources: Scotiabank Economics, Bloomberg.

—Eduardo Suárez

COLOMBIA: JUNE'S CITI SURVEY SHOWS ANALYSTS EXPECT DISINFLATION; MONETARY POLICY RATE EASING CYCLE EXPECTED TO STOP AT 2.25%

June's Citi survey came out on Wednesday, which provides the BanRep with one of its measures of expectations on inflation, the monetary policy rate (MPR), GDP, and the COP. The survey's key readings include:

- **Growth forecasts.** For 2020, a contraction of -4.78% y/y is expected. In 2021, the recovery would be at a 3.3% y/y pace, broadly unchanged from the previous survey;
- **Inflation forecasts.** June's monthly inflation rate is, on average, expected to be -0.09 % m/m and 2.49% y/y; we expect 0.07% m/m and 2.65% y/y. For December 2020, the survey's average projection is 2.24% y/y. December 2021 inflation is expected at 2.98% y/y, showing that medium-term inflation expectations remain anchored to the central bank's 3% y/y target;
- **BanRep's repo rate.** Analysts expect a median -25 bps cut in the MPR at the June 30 meeting to take the repo rate to 2.50%.

The repo rate is expected to come down further to 2.25% by December 2020; in 2021, consensus expects one 25 bps hike, although the dispersion of expectations is high: out of twenty-seven analysts surveyed, fourteen expect a -25 bps rate cut in the June meeting, while twelve analysts expect a -50 bps cut, and one expects no change. In 2021, 62% of analysts expect rate hikes; and

- **USDCOP.** Survey forecasts point to a mild COP appreciation by Dec–2020 and again by Dec–2021. On average, respondents expect USDCOP 3,725 by the end of 2020 and USDCOP 3,581 by end-2021.

—Sergio Olarte & Jackeline Piraján

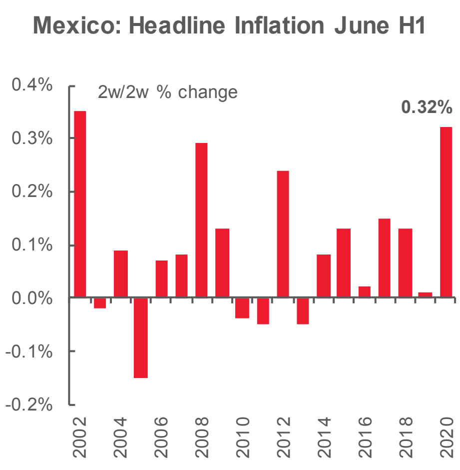
MEXICO: HIGHER THAN EXPECTED INFLATION IN JUNE H1; IMF SLASHES MEXICO'S GROWTH OUTLOOK FOR 2020

I. Inflation surprises to the upside in the first half of June

According to figures published by INEGI on June 24, headline inflation came in at 0.32% 2w/2w in the first fortnight of June, its highest rate for a June H1 since 2002 (chart 4). Contrary to May's results, where inflation surprised to the downside, on this occasion, the CPI's bi-weekly variation came in significantly higher than market expectations (0.20% 2w/2w). This result was mainly—but not exclusively—driven by a higher than anticipated rise in the core component (0.29% 2w/2w versus 0.14% expected), where increases in the prices of non-food merchandise and other services partially offset a weaker dynamic in food and beverages. In its annual comparison, inflation accelerated from 2.85% y/y to 3.17% y/y between the second fortnight of May and the first fortnight of June, with its core component rising from 3.52% y/y to 3.66% y/y on higher goods prices, with non-core inflation increasing from 0.76% y/y to 1.63% y/y (charts 5 and 6).

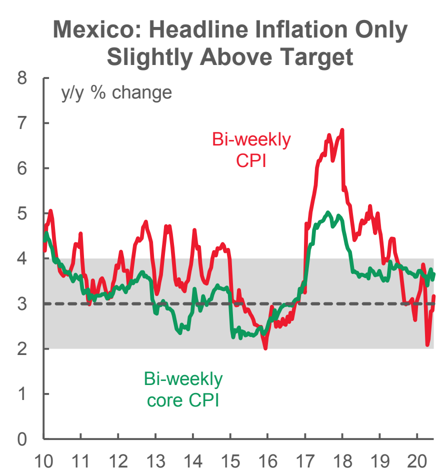
These prints do not change our expectation of another -50 bps cut to the benchmark interest rate in Banxico's monetary policy decision due this afternoon. Given the high degree of uncertainty to which inflation is subject, we would not be surprised to observe a more cautious tone from Banco de México's Governing Board.

Chart 4



Sources: Scotiabank Economics, INEGI.

Chart 5



Sources: Scotiabank Economics, INEGI.

Chart 6

Sources: Scotiabank Economics, INEGI.

II. IMF slashes Mexico's growth forecast to -10.5% y/y in 2020

In its *World Economic Outlook (WEO)* update published yesterday, the IMF slashed Mexico's growth forecast to -10.5% y/y in 2020 from -6.6 y/y in April's WEO release. Even though the IMF expects a 3.3% y/y rebound in 2021, the updated *WEO* forecasts imply that Mexico could be the Latin American economy most affected by the COVID-19 pandemic.

—Alejandro Stewens

PERU: PRIVATE CLINICS AT RISK OF BEING TAKEN OVER BY THE GOVERNMENT; BANK LOANS SOAR ON GOVERNMENT-SPONSORED PROGRAMS

Peru's government gave private clinics 48 hours from Wednesday, June 24, to reach an agreement on the magnitude of a government subsidy to clinics for caring for COVID-19 patients—or risk being taken over by the government. Early in the lockdown, the government established that private clinics would be paid by the government for caring for COVID-19 cases. However, this arrangement never materialized due to disagreements on the amounts clinics were charging for their services. The issue erupted earlier this week when the press reported that a private clinic had sent a patient home due to his inability to pay. After negotiations broke down, President Vizcarra announced on Wednesday that, if an agreement were not reached in 48 hours, the government would make recourse to an article in the Constitution that allows the State to take over private property when this is for the greater good. The deadline ends on Friday. The most likely scenario is that the government is simply putting pressure on clinics for an agreement closer to what the government is already offering. A government takeover would be a highly controversial, albeit popular, move that may make the business community nervous.

Bank loans soared 14.7% y/y in May, according to information from Asbanc, Peru's business association. This was a sharp acceleration from 8.5% y/y growth in April. May was the first month in which liquidity from the government-sponsored Reactiva program reached banks, making the month an anomaly. Since Reactiva funds are earmarked for enterprises, it's not surprising that business loans rose 19.8% y/y in May, more than double the 9.0% y/y growth of the previous month. On the other hand, household loans rose only 5.9% y/y in May, slowing sharply from the 7.7% y/y growth recorded in April and down from the 12% y/y pace that was trending prior to the lockdown.

—Guillermo Arbe